

STATE OF MINNESOTA

Office of the State Auditor



Rebecca Otto
State Auditor

MANAGEMENT AND COMPLIANCE REPORT

CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA

YEAR ENDED DECEMBER 31, 2012

Description of the Office of the State Auditor

The mission of the Office of the State Auditor is to oversee local government finances for Minnesota taxpayers by helping to ensure financial integrity and accountability in local governmental financial activities.

Through financial, compliance, and special audits, the State Auditor oversees and ensures that local government funds are used for the purposes intended by law and that local governments hold themselves to the highest standards of financial accountability.

The State Auditor performs approximately 160 financial and compliance audits per year and has oversight responsibilities for over 3,300 local units of government throughout the state. The office currently maintains five divisions:

Audit Practice - conducts financial and legal compliance audits of local governments;

Government Information - collects and analyzes financial information for cities, towns, counties, and special districts;

Legal/Special Investigations - provides legal analysis and counsel to the Office and responds to outside inquiries about Minnesota local government law; as well as investigates allegations of misfeasance, malfeasance, and nonfeasance in local government;

Pension - monitors investment, financial, and actuarial reporting for approximately 730 public pension funds; and

Tax Increment Financing - promotes compliance and accountability in local governments' use of tax increment financing through financial and compliance audits.

The State Auditor serves on the State Executive Council, State Board of Investment, Land Exchange Board, Public Employees Retirement Association Board, Minnesota Housing Finance Agency, and the Rural Finance Authority Board.

Office of the State Auditor
525 Park Street, Suite 500
Saint Paul, Minnesota 55103
(651) 296-2551
state.auditor@osa.state.mn.us
www.auditor.state.mn.us

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**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

Year Ended December 31, 2012



Management and Compliance Report

**Audit Practice Division
Office of the State Auditor
State of Minnesota**

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**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

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**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2012**

I. SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued: **Unmodified**

Internal control over financial reporting:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Noncompliance material to the financial statements noted? **No**

Federal Awards

Internal control over major programs:

- Material weaknesses identified? **Yes**
- Significant deficiencies identified? **Yes**

Type of auditor's report issued on compliance for major programs: **Unmodified for all major programs except for the Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA which is qualified.**

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133? **Yes**

The major programs are:

Community Development Block Grants (CDBG)/Entitlement Grants Cluster	
Community Development Block Grants/Entitlement Grants	CFDA #14.218
Community Development Block Grants/Entitlement Grants - ARRA	CFDA #14.253
Neighborhood Stabilization Program - ARRA	CFDA #14.256

Workforce Investment Act (WIA) Cluster	
Workforce Investment Act Adult Program	CFDA #17.258
Workforce Investment Act Youth Activities	CFDA #17.259
Workforce Investment Act Dislocated Workers	CFDA #17.260
Workforce Investment Act Dislocated Worker Formula Grants	CFDA #17.278
Highway Planning and Construction	CFDA #20.205
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	CFDA #81.128

The threshold for distinguishing between Types A and B programs was \$2,000,744.

City of Minneapolis qualified as a low-risk auditee? **Yes**

II. FINDINGS RELATED TO FINANCIAL STATEMENTS AUDITED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

INTERNAL CONTROL

PREVIOUSLY REPORTED ITEM NOT RESOLVED

11-1 Permanent Improvement Capital Project Fund Adjustments and Audit Adjustment

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of the financial statements on a timely basis. Clarified Auditing Standards AU-C Section 265 defines a material weakness as a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Condition: During our audit of the Permanent Improvement Capital Project Fund, six audit adjustments were proposed and recorded to properly report revenue, including federal revenue. Of the six adjustments, the adjustment to recognize revenue of \$6,566,370 originally reported as deferred revenue - unavailable is individually material to this opinion unit. The other five journal entries relate to reclassifying intergovernmental revenue, including some federal funding. Together, these adjustments indicate an internal control weakness.

Context: Revenue is recorded for a variety of projects and funding sources in this fund by a number of Finance and Property Services staff. The inability to detect misstatements in the financial statements increases the likelihood that the financial statements would not be fairly presented.

Effect: Multiple audit adjustments were reviewed and recorded by the appropriate City staff to correctly identify and report revenue, including federal revenue, in the financial statements.

Cause: Multiple staff are responsible for recording revenue in the Permanent Improvement Capital Project Fund, depending on the project and funding source. Also, reconciliations of receivables and revenues are not performed on a regular basis.

Recommendation: We again recommend Finance and Property Services management implement internal controls related to the recording of revenue for the Permanent Improvement Capital Project Fund to ensure revenue is recorded appropriately based on the purpose of the revenue, the funding source, and the federal program, if applicable, prior to recording the transaction in the general ledger system. We also recommend that revenue accounts be reconciled periodically throughout the year to grant agreements and related expenditures. Finance and Property Services staff could consider confirming revenue amounts from the various funding sources to ensure revenue is being recorded appropriately.

Client's Response:

The Controller's Division has assigned responsibility for the financial management, accountability and oversight of the Permanent Improvement Capital Project Fund to the Manager for Capital Projects and Public Works Accounting. In addition, the Controller's Division in conjunction with the financial management staff in the Public Works Department, the primary user of the fund, has developed and written administrative procedures and guidelines that identify staff and department roles and responsibilities in fund management, along with requirements for the accounting for and reporting of financial activity in the fund, and the internal controls needed to ensure the financial activity is accurately and timely recorded in the fund. The fund manager has also developed several reports that enable staff to analyze revenue and expenditure activity on a monthly basis to ensure activity is accurately and timely reported in the fund. The fund manager will meet on a regular basis (at least monthly) with accounting staff to review financial activity in the fund which will provide a review and documentation of adjustments and changes to fund activity. In addition, the fund manager will review revenue received in the first 60 days of the year to assure that it is reported in the correct fiscal year.

ITEM ARISING THIS YEAR

12-1 Prior Period Adjustment

Criteria: A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements of

the financial statements on a timely basis. One indication of a weakness in internal control is restatement of previously issued financial statements to reflect the correction of misstatements due to error.

Condition: While reconciling accounts receivable between the subsidiary ledger and the general ledger, the City's Finance and Property Services staff identified a number of funds where a restatement of prior year's fund balance/net position was necessary to properly state the receivables in the general ledger. Other account reconciliations performed during 2012 also led to restatements in intergovernmental receivables, prepaid items, unearned revenue, deposits held for others, and capital asset accounts. These adjustments affected both governmental and proprietary funds, as well as the governmental and business-type activities.

Context: The need for prior period adjustments can raise doubts as to the reliability of the City's financial information being presented.

Effect: The January 1, 2012, fund balance and net position for multiple funds, as well as the governmental and business-type activities, were restated by varying amounts, none of which were material individually or in the aggregate.

Cause: Reconciliations of balance sheet accounts were not being completed on a regular basis.

Recommendation: We recommend City management develop accounting policies and procedures documenting the performance of account reconciliations as well as a schedule to determine the time frame and frequency for when the reconciliations will be completed. We also recommend this policy incorporate management's monitoring and documentation of the review of the reconciliation procedures.

Client's Response:

The prior period adjustments and related restatements of beginning fund balances/net position in several funds as well as the entity-wide financial statements were primarily a result of the completion of the reconciliation of the transition of data from the old FISCOL financial system to the new PeopleSoft financial system (COMPASS) and the related clean-up and reclassification of financial data. As the State Auditors noted, none of the restatements were material individually or in the aggregate. However, the City will develop procedures and schedules to ensure account reconciliations are done regularly and in a timely manner and incorporate in the reconciliation process monitoring and review by the appropriate Financial Manager. All fund balance entries including corrections to prior periods must be approved by the Manager of Financial Accounting and Reporting or the Controller.

PREVIOUSLY REPORTED ITEM RESOLVED

Journal Entries (08-1)

The City's journal entry policy documents a monthly monitoring process of generating and reviewing a detailed report of all journal entries that have been posted to the accounting system. However, the detailed report was neither generated nor reviewed on a monthly basis.

Resolution

The City has developed a query that is generated and reviewed on a monthly basis to monitor journal entries posted to the accounting system.

III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARD PROGRAMS

PREVIOUSLY REPORTED ITEMS NOT RESOLVED

11-2 Identification of Federal Awards

Program: U.S. Department of Transportation's Highway Planning and Construction (CFDA No. 20.205)

Pass-Through Agency: Minnesota Department of Transportation

Criteria: OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include the identification of all federal awards received and expended and the federal programs under which they were received.

Condition: The City did not adequately identify amounts received and expended for one project of a federal award program on its preliminary estimate of federal expenditures or in the population of expenditures provided for the audit of this program. Additional Highway Planning and Construction (CFDA No. 20.205) expenditures were identified during our audit of the Schedule of Expenditures of Federal Awards (SEFA).

Questioned Costs: None.

Context: Federal award programs often cover multiple projects. All expenditures reimbursed with federal funds are subject to audit as part of the City's single audit.

Effect: The Highway Planning and Construction Program had already been audited as a major federal program based on the original expenditures identified by the City. However, after the identification of the extra project expenditures, additional audit procedures needed to be performed at the end of the audit to ensure this portion of the program's compliance with grant requirements.

Cause: Multiple staff are responsible for recording revenue in the Permanent Improvement Capital Project Fund, depending on the project and funding source.

Recommendation: We recommend City management develop written procedures that will allow staff to correctly identify all federal financial assistance received and expended.

Corrective Action Plan:

Corrective Action Planned:

As indicated in the response to Item 11-1, the Controller's Division has developed and written policies and procedures for the management of and the accounting for and reporting of financial activity in the Permanent Improvement Capital Project Fund. These policies and procedures will be in place effective July 1, 2013. They include the review and analysis of revenue transactions each month by the fund manager and the creation and use of a report on all Federal and State grant activity that will be provided to the State Auditors in October/November each year during the planning phase of the financial/compliance audit so the State Auditors can do an accurate assessment and better planning of the audit work that needs to be done during the field work phase of the audit in the first four months of the following year. Though the City had properly identified and accurately reported the expenditures for the Federal Highway Planning and Construction program on the 2012 Schedule of Expenditures of Federal Awards (SEFA) provided to the State Auditors during the actual audit field work, the use of the program funds was inadvertently left off the list of Federal programs provided to the State Auditors during the planning phase of the audit in October/November 2012.

Action Items:

- a. Review and update grant administrative policies, procedures and guidelines.*
- b. Create and maintain monthly revenue analysis worksheet for the Permanent Improvement Capital Project Fund.*
- c. Coordinate reporting of information to State Auditors during planning phase of audit.*

Names of Contact Person Responsible for Corrective Action:

- a. Controller and Intergovernmental Relations (IGR) Director*
- b. Manager, Capital Projects and Public Works Accounting*
- c. Accounting Manager, Grants and Internal Controls*

Anticipated Completion Dates:

- a. Fully implemented 4th Quarter 2013
- b. Analysis process implemented in June 2013; will do additional work back to beginning of 2013; updated monthly.
- c. October/November 2013

11-4 Financial Subrecipient Monitoring

Programs	Pass-Through Agencies
U.S. Department of Housing and Urban Development	
Community Development Block Grants (CDBG) /Entitlement Grants Cluster:	
Community Development Block Grants/Entitlement Grants (CFDA No. 14.218)	
Housing Opportunities for Persons with AIDS (CFDA No. 14.241)	
Neighborhood Stabilization Program - ARRA (CFDA No. 14.256)	
Homelessness Prevention and Rapid Re-Housing Program - ARRA (CFDA No. 14.257)	
Lead-Based Paint Hazard Control in Privately-Owned Housing (CFDA No. 14.900)	Hennepin County
Asthma Interventions in Public and Assisted Multifamily Housing (CFDA No. 14.914)	Minnesota Department of Health
Lead Hazard Reduction Demonstration Grant Program (CFDA No. 14.905)	Hennepin County
U.S. Department of the Interior	
Migratory Bird Monitoring, Assessment and Conservation (CFDA No. 15.655)	
U.S. Department of Justice	
Youth Gang Prevention (CFDA No. 16.544)	
Violence Against Women Formula Grants – ARRA (CFDA) No. 16.588	Minnesota Department of Public Safety
U.S. Department of Labor	
Workforce Investment Act Pilots, Demonstrations, and Research Projects (CFDA No. 17.261)	
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - ARRA (CFDA No. 17.275)	
Workforce Investment Act (WIA) Cluster:	
Workforce Investment Act Adult Program (CFDA No. 17.258)	Minnesota Department of Employment and Economic Development
Workforce Investment Act Youth Activities (CFDA No. 17.259)	Minnesota Department of Employment and Economic Development
Workforce Investment Act Dislocated Workers (CFDA No. 17.260)	Minnesota Department of Employment and Economic Development
Workforce Investment Act Dislocated Worker Formula Grants (CFDA No. 17.278)	Minnesota Department of Employment and Economic Development
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - ARRA (CFDA No. 17.275)	Minnesota Department of Employment and Economic Development

Programs	Pass-Through Agencies
U.S. Department of Transportation	
Federal Transit Formula Grants (CFDA No. 20.507)	Metropolitan Council
Highway Planning and Construction (CFDA No. 20.205)	Minnesota Department of Transportation
Highway Safety Cluster:	
State and Community Highway Safety (CFDA No. 20.600)	Minnesota Department of Public Safety
Occupant Protection Incentive Grants (CFDA No. 20.602)	Minnesota Department of Public Safety
Minimum Penalties for Repeat Offenders for Driving While Intoxicated (CFDA No. 20.608)	Minnesota Department of Public Safety
U.S. Department of Energy	
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA (CFDA No. 81.128)	Minnesota Department of Commerce - Minnesota Office of Energy Security
State Energy Program - ARRA (CFDA No. 81.041)	Minnesota Department of Commerce - Minnesota Office of Energy Security
U.S. Department of Health and Human Services	
Healthy Start Initiative (CFDA No. 93.926)	
PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds (CFDA No. 93.531)	Hennepin County
Temporary Assistance for Needy Families (CFDA No. 93.558)	Hennepin County; Minnesota Department of Health
Environmental Public Health and Emergency Response (CFDA No. 93.070)	Minnesota Department of Health
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program (CFDA No. 93.505)	Minnesota Department of Health
Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) - ARRA (CFDA No. 93.724)	Minnesota Department of Health
Maternal and Child Health Services Block Grant to the States (CFDA No. 93.994)	Minnesota Department of Health
U.S. Department of Homeland Security	
Disaster Grants - Public Assistance (Presidentially Declared Disasters) (CFDA No. 97.036)	Minnesota Department of Public Safety

Criteria: OMB Circular A-133, Subpart C, § .400, indicates auditee responsibilities for entities that provide federal awards to subrecipients as a pass-through entity. Included in these responsibilities are: (1) at the time of the award, identifying to the subrecipient the federal award information (CFDA title and number, award name, name of federal agency, and applicable compliance requirements); (2) monitoring the subrecipient’s activities to provide reasonable assurance that the subrecipient administers the federal award in compliance with federal requirements; (3) ensuring that required audits are performed, if applicable, and requiring the subrecipient to take prompt corrective action on any audit findings; and (4) evaluating the impact of subrecipient activities on the entity’s ability to comply with applicable federal regulations.

Condition: Based on our review of the subrecipient monitoring procedures performed to ensure that required audits are performed, if applicable, and requiring the subrecipient to take prompt corrective action on any audit findings, the City does not have a comprehensive list of subrecipients and amounts passed through to them. Efforts have been made to identify subrecipients in the general ledger by making use of a field in

vendor information; however, this process is not yet complete. Training sessions with a Grant User Group have been held to communicate the importance of identifying subrecipients and communicating that information to those involved in the subrecipient monitoring process.

Questioned Costs: None.

Context: The City of Minneapolis passes through federal awards to subrecipients and is required to perform financial monitoring of those subrecipients. Of the \$66.7 million in federal awards, \$12.2 million were passed to subrecipients.

Effect: The City of Minneapolis has no assurance that required audits are being performed of its subrecipients and that the subrecipients are taking prompt corrective action on any audit findings. Also, without the identification of subrecipients, there is no assurance that subrecipient audit reports containing federal award program findings are received, reviewed, and appropriate management decisions communicated within the six-month compliance requirement.

Cause: The City of Minneapolis' general ledger software does not have the capability to specifically track subrecipients and the amounts of federal funds passed through to them. City staff are in the process of developing alternate methods of tracking subrecipient information.

Recommendation: We recommend the City develop a system and written policies and procedures to ensure compliance requirements over subrecipients are met and subrecipients are monitored in accordance with OMB Circular A-133.

Corrective Action Plan:

Corrective Action Planned:

In the 2013 budget process, the Controller's Division received authorization to hire an additional 1.0 FTE – Accountant II in the Grants and Internal Controls Accounting unit. The City is in the process of recruiting and hiring this staff person with the expectation they will be on board by August 1 to help the Grants and Internal Controls Accounting Manager staff the financial subrecipient monitoring program. In addition, the Controller's Division along with COMPASS Support and Accounts Payable (AP) Section staff has developed a financial system query to identify potential grant subrecipients (non-profit entities and government agencies). The staff in the Grants Accounting section will run the query monthly to ensure subrecipients are identified and set up in the system to be monitored. The Grants and Internal Controls Accounting Manager has developed written financial subrecipient monitoring program procedures and will develop an annual program schedule to ensure compliance with financial subrecipient monitoring requirements in OMB A-133.

Action Items:

- a. *Hire an Accountant II to help staff the financial subrecipient program.*
- b. *Run query developed to help identify grant subrecipients on a monthly basis.*
- c. *Develop and implement financial subrecipient monitoring program on annual basis.*
- d. *Incorporate procedures for departments to inform the Accounting Manager, Grants and Internal Controls and IGR about grants received and subrecipients related to those grants in the administrative policies, procedures and guidelines.*
- e. *Continue Grant User Group quarterly meetings with more extensive training presented as needed (at least annually) or information becomes available.*

Names of Contact Person Responsible for Corrective Action:

- a. *Accounting Manager, Grants and Internal Controls*
- b. *Accounting Manager, Grants and Internal Controls*
- c. *Accounting Manager, Grants and Internal Controls
Reviewed by Accounting Director (Currently, Interim Financial
Accounting and Reporting Manager)*
- d. *Controller and IGR Director*
- e. *Accounting Manager, Grants and Internal Controls along with IGR Staff*

Anticipated Completion Dates:

- a. *In process; complete hiring by August 31, 2013*
- b. *Starting in July 2013*
- c. *Complete by December 31 each year*
- d. *Fully implemented 4th Quarter 2013*
- e. *Ongoing*

11-5 Requirements of Energy Efficiency and Conservation Block Grant Program (EECBG) –
ARRA (CFDA No. 81.128)

Program: U.S. Department of Energy's Energy Efficiency and Conservation Block Grant Program (EECBG) – ARRA (CFDA No. 81.128)

Pass-Through Agency: Minnesota Department of Commerce – Minnesota Office of Energy Security

Criteria: OMB Circular A-133, Subpart C, § .300, indicates auditee responsibilities include maintaining internal controls over federal programs that provides reasonable assurance that the auditee is managing federal awards in compliance with laws, regulations, and the provisions of contracts or grant agreements that could have a material effect on each of its federal programs.

Condition: The City did not maintain adequate internal controls over compliance or comply with the following compliance requirements:

- Equipment totaling \$370,800 was purchased, reimbursed with grant funds, and entered into the City's capital asset module of its general ledger; however, the equipment was not identified as being purchased with federal funds in the capital assets module.
- Two of the four reports tested for reporting compliance were either not complete or were not submitted by the reporting deadline. The third quarter 1512 ARRA report did not include two of the three subrecipients of this program; both subrecipients were part of the Government Building Retrofits project. The first quarter Energy Efficiency and Conservation Block Grant (EECBG) Quarterly Performance Report was not submitted on time. The grant agreement requires this report to be submitted 30 days after the end of the quarter (April 30); the report was submitted on May 1, 2012.
- Grant funds are passed through to two subrecipients for the Government Building Retrofits project; however, programmatic subrecipient monitoring is not performed. The City reviews reimbursement requests submitted by the subrecipients for activities performed, but site visits and monitoring of activities and expenditures are not performed or documented. Additionally, the City's monitoring procedures for the Government Building Retrofits project did not include verification that subrecipients were aware of the State Historic Preservation Office's (SHPO) requirements relating to building improvements or upgrades; one subrecipient did not obtain SHPO approval before building improvements or upgrades began.
- The grant agreement requires obtaining permission from the State Historic Preservation Office (SHPO) prior to building improvements or upgrades being made. The City did not obtain SHPO's approval before improvements or upgrades began at the Convention Center.

Questioned Costs: None.

Context: Federal award program administration is decentralized throughout the various departments of the City. In some cases, federal award programs are administered by staff with limited grant experience.

Effect: Internal controls over administration of grant programs and/or compliance with the following compliance requirements were not met: Equipment and Real Property Management; Reporting; Subrecipient Monitoring, and Special Tests and Provisions.

Cause: There was insufficient communication of grant requirements and grant activity between program staff, finance staff, and staff in multiple City departments during the administration of this complex program.

Recommendation: We recommend all City staff (including both program and finance staff) responsible for the administration and compliance of federal programs receive adequate training and support to properly administer, account, and comply with direct and material compliance requirements specific to federal award programs.

Corrective Action Plan:

Corrective Action Planned:

The Controller's Division in the Finance and Property Services Department and IGR Division in the City Coordinator's Office have organized a work team to address citywide grant management and compliance issues and concerns. Each division received approval in the 2013 budget to add a staff person to the grant management and accounting functions and both divisions are in the hiring process for those positions. The two divisions have drafted City Administrative Procedures for developing, requesting, managing, reporting on, and monitoring, both from a program and financial perspective, grant funds and the programs they support. These procedures provide reporting and communication requirements of grant program and subrecipient information by City departments to IGR and Accounting. The procedures should be in place and communicated to accountant and grant management staff within the departments in the fourth quarter of 2013.

IGR and the Controller's Division organized a Grant User Group in 2012 that meets quarterly in order to receive information and training on specific topics related to effective grant management. The Grants Accounting Manager and other Accounting staff continue to organize and provide educational opportunities, webinars and other training on specific grant issues and areas of concerns like subrecipient monitoring, changes in grant compliance regulations and OMB circulars, etc. Three comprehensive trainings were provided to accounting and financial staff in 2012 and are continuing in 2013.

In the first part of the third quarter 2013, the Controller, Manager of Financial Accounting and Reporting, and the Grants and Internal Controls Accounting Manager will meet with the EECBG program manager to assure that the grant reporting, billing, subrecipient monitoring and other compliance requirements are understood and followed, and that the departments benefiting from the grant are informed of the federal requirements.

Action Items:

- a. Meet with the EECBG program manager and team to go over grant reporting, billing, subrecipient monitoring, and other compliance requirements.*
- b. Continue Grant User Group quarterly meetings with more extensive training presented as needed (at least annually) or as information becomes available.*
- c. Review and update grant administrative policies, procedures and guidelines.*

Names of Contact Person Responsible for Corrective Action:

- a. Accounting Manager, Grants and Internal Controls, along with appropriate IGR staff*
- b. Accounting Manager, Grants and Internal Controls along with IGR staff*
- c. Controller and Intergovernmental Relations Director*

Anticipated Completion Dates:

- a. Early in 3rd Quarter 2013*
- b. Ongoing*
- c. Fully implemented 4th Quarter 2013*

PREVIOUSLY REPORTED ITEMS RESOLVED

Equipment and Real Property Management (11-3)

Vehicles and equipment purchased with federal funds for both the Community Development Block Grant (CDBG)/Entitlement Grants Cluster (CFDA Nos. 14.218 and 14.253); and Justice Assistance Grant (JAG) Program Cluster (CFDA Nos. 16.738 and 16.803) were not entered into the City's capital asset module of its general ledger.

Resolution

Vehicles and equipment purchased with federal funds for both the Community Development Block Grant (CDBG)/Entitlement Grants Cluster (CFDA Nos. 14.218 and 14.253) and the JAG Program Cluster (CFDA Nos. 16.738 and 16.803) were entered into the City's capital asset module of the general ledger and identified as purchased with federal funds.

Requirements of Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA (CFDA No. 81.128) (11-5)

The following internal control over compliance and compliance issues were noted in our previous audit:

- the complete population of grant expenditures was not provided for audit;
- indirect costs were coded to the grant (although not requested for reimbursement);
- Davis-Bacon monitoring was performed for only three of seven contractors;
- the grant extension for the Facilities Cost Share (FCS) project could not be provided;
- one FCS reimbursement request was not submitted by the required deadline set in the grant agreement; and
- acceptance testing documentation for modifications to heating, ventilation, and/or air conditioning systems made in conjunction with the FCS project were not submitted to the Office of Energy Solutions.

Resolution

The following resolutions were noted during our audit of the Energy Efficiency and Conservation Block Grant Program (EECBG) in 2012:

- the complete population of grant expenditures was provided for audit;
- no indirect costs were coded to the grant project codes;
- the City monitored contractors performing construction activities for Davis-Bacon; and
- the FCS project ended; we noticed no similar instances of a failure to provide documentation of grant extensions, failure to submit reimbursement requests within grant requirements, or a failure to submit acceptance testing documentation.

IV. OTHER FINDINGS AND RECOMMENDATIONS

MINNESOTA LEGAL COMPLIANCE

PREVIOUSLY REPORTED ITEM NOT RESOLVED

09-1 Prompt Payment of Invoices

Criteria: As stated in Minn. Stat. § 471.425, the City is required to make payment on vendor invoices according to the terms of the contract, or within 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later.

Condition: Forty-one of the 176 invoices tested for compliance with this statute were not paid within 35 days.

Context: The City's accounts payable function is centralized.

Effect: Making payment on invoices after 35 days of the completed delivery of the goods or services or the receipt of the invoice, whichever is later, is in noncompliance with Minnesota law.

Cause: The accounts payable process is centralized; however, not all vendors submit invoices directly to the accounts payable group. Additional processing time is incurred when invoices or other supporting documentation is first sent to the individual departments.

Recommendation: We recommend the City make payments on vendor invoices in accordance with Minn. Stat. § 471.425.

Client's Response:

The City has undertaken a number of approaches in the last year to continue to improve its Procure-to-Pay function in an effort to ensure purchases are approved in advance, receipts of goods and services are verified, and vendors are paid timely. In the second half of 2012, an Accounts Payable (AP) Manager was hired to better facilitate and manage AP processes including the prompt payment of invoices. The AP Manager has focused on improving communication with departments in order to help ensure the departments or their accountants do not hold onto invoices for prolonged periods of time and payments are made timely. AP has updated its policies and procedures on its web site and regularly communicates these and other process changes to the departments. The AP Manager has also set up a series of meetings with individual departments to address specific issues and concerns with that department. The AP Manager and the

Controller's Division will develop quarterly and other communications as needed through the year end process to remind departments of processing and payment requirements and deadlines. AP is also working with the IT area and COMPASS Support to identify possible workflow and system improvements that will help to address this issue. Finally, in May the City implemented a 6-month procurement card pilot program that, if successful and rolled out to the entire City, will significantly reduce the payment processing time. AP monitors its average payment processing time on a regular basis.



REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Independent Auditor's Report

The Honorable R. T. Rybak, Mayor
and Members of the City Council
City of Minneapolis, Minnesota

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Minneapolis, Minnesota, as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated June 24, 2013. Our report includes a reference to other auditors. Other auditors audited the financial statements of Meet Minneapolis, as described in our report on the City of Minneapolis' financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors. The financial statements of Meet Minneapolis were not audited in accordance with *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Minneapolis' internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and, therefore, material weaknesses may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control over financial reporting that we consider to be a material weakness and a significant deficiency.

A deficiency in internal control over financial reporting exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 11-1 to be a material weakness.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control over financial reporting that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Questioned Costs as item 12-1 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Minneapolis' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Minnesota Legal Compliance

The *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, promulgated by the State Auditor pursuant to Minn. Stat. § 6.65, contains seven categories of compliance to be tested: contracting and bidding, deposits and investments, conflicts of interest, public indebtedness, claims and disbursements, miscellaneous provisions, and tax increment financing. Our audit considered all of the listed categories.

In connection with our audit, nothing came to our attention that caused us to believe that the City of Minneapolis failed to comply with the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions*, except as described in the Schedule of Findings and Questioned Costs as item 09-1. However, our audit was not directed primarily toward obtaining knowledge of such noncompliance. Accordingly, had we performed additional procedures, other matters may have come to our attention regarding the City's noncompliance with the above referenced provisions.

Other Matters

The City of Minneapolis' responses to the internal control and legal compliance findings identified in our audit have been included in the Schedule of Findings and Questioned Costs. The City's responses were not subject to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting, compliance and the provisions of the *Minnesota Legal Compliance Audit Guide for Political Subdivisions* and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance. Accordingly, this communication is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 24, 2013

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REBECCA OTTO
STATE AUDITOR

STATE OF MINNESOTA OFFICE OF THE STATE AUDITOR

SUITE 500
525 PARK STREET
SAINT PAUL, MN 55103-2139

(651) 296-2551 (Voice)
(651) 296-4755 (Fax)
state.auditor@state.mn.us (E-mail)
1-800-627-3529 (Relay Service)

REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE

Independent Auditor's Report

The Honorable R. T. Rybak, Mayor
and Members of the City Council
City of Minneapolis, Minnesota

Report on Compliance for Each Major Federal Program

We have audited the City of Minneapolis' compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City of Minneapolis' major federal programs are identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs.

The City of Minneapolis' basic financial statements include the operations of the Minneapolis Park and Recreation Board (Park Board) component unit, which expended \$869,217 in federal awards during the year ended December 31, 2012, which are not included in the Schedule of Expenditures of Federal Awards. Our audit, described below, did not include the operations of the Park Board because it had a separate single audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City of Minneapolis' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally

accepted in the United State of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Minneapolis' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance with those requirements.

Opinion on Each Major Federal Program

Basis for Qualified Opinion on Energy Efficiency and Conservation Block Grant Program (EECBG) – ARRA (CFDA No. 81.128)

As described in the accompanying Schedule of Findings and Questioned Costs, the City of Minneapolis did not comply with requirements regarding CFDA 81.128 Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA as described in finding number 11-5 for Equipment and Real Property Management, Reporting, Subrecipient Monitoring, and Special Tests and Provisions. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

Qualified Opinion on Energy Efficiency and Conservation Block Grant Program (EECBG)-- ARRA (CFDA No. 81.128)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the City of Minneapolis complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on the Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA for the year ended December 31, 2012.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, the City of Minneapolis complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major federal programs identified in the Summary of Auditor's Results section of the accompanying Schedule of Findings and Questioned Costs for the year ended December 31, 2012.

The City of Minneapolis' response to the noncompliance finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs as a Corrective Action Plan. The City of Minneapolis' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control Over Compliance

Management of the City of Minneapolis is responsible for establishing and maintaining effective internal control over compliance with the types of requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as item 11-5 to be material weaknesses.

A significant deficiency in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 11-2 and 11-4 to be significant deficiencies.

The City of Minneapolis' responses to the internal control over compliance findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs as Corrective Action Plans. The City of Minneapolis' responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Minneapolis as of and for the year ended December 31, 2012, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We have issued our report thereon dated June 24, 2013, which contained unmodified opinions on those financial statements. We did not audit the financial statements of Meet Minneapolis, which represents less than one percent, a negative two percent, and nine percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. Those financial statements were audited by other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying Schedule of Expenditures of Federal Awards (SEFA) is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the SEFA is fairly stated in all material respects in relation to the basic financial statements as a whole.

Purpose of This Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

/s/Rebecca Otto

REBECCA OTTO
STATE AUDITOR

/s/Greg Hierlinger

GREG HIERLINGER, CPA
DEPUTY STATE AUDITOR

June 24, 2013

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Agriculture		
Passed Through the University of Minnesota Integrated Programs	10.303	<u>\$ 8,132</u>
U.S. Department of Housing and Urban Development		
Direct		
Community Development Block Grants (CDBG)/Entitlement Grants Cluster		
Community Development Block Grants/Entitlement Grants	14.218	\$ 16,724,492
Community Development Block Grants/Entitlement Grants - ARRA	14.253	268,659
Emergency Solutions Grant Program	14.231	374,779
HOME Investment Partnerships Program	14.239	5,058,182
Housing Opportunities for Persons with AIDS	14.241	978,482
Neighborhood Stabilization Program - ARRA	14.256	9,628,192
Homelessness Prevention and Rapid Re-Housing Program - ARRA	14.257	1,082,706
Lead-Based Paint Hazard Control in Privately-Owned Housing (Total Lead-Based Paint Hazard Control in Privately-Owned Housing CFDA 14.900 - \$180,824)	14.900	40,211
Healthy Homes Demonstration Grants	14.901	219,592
Asthma Interventions in Public and Assisted Multifamily Housing (Total Asthma Interventions in Public and Assisted Multifamily Housing CFDA 14.914 - \$266,369)	14.914	246,237
Passed Through Minnesota Department of Health		
Asthma Interventions in Public and Assisted Multifamily Housing (Total Asthma Interventions in Public and Assisted Multifamily Housing CFDA 14.914 - \$266,369)	14.914	20,132
Passed Through Minnesota Housing Finance Agency		
Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii	14.228	1,579,420
Passed Through Hennepin County		
Lead-Based Paint Hazard Control in Privately-Owned Housing (Total Lead-Based Paint Hazard Control in Privately-Owned Housing CFDA 14.900 - \$180,824)	14.900	140,613
Lead Hazard Reduction Demonstration Grant Program	14.905	<u>78,244</u>
Total U.S. Department of Housing and Urban Development		<u>\$ 36,439,941</u>
U.S. Department of the Interior		
Direct		
Migratory Bird Monitoring, Assessment and Conservation	15.655	<u>\$ 15,295</u>

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Justice		
Direct		
Youth Gang Prevention	16.544	\$ 183,880
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	45,600
Public Safety Partnership and Community Policing Grants	16.710	1,097,658
Public Safety Partnership and Community Policing Grants - ARRA (Total Public Safety Partnership and Community Policing Grants CFDA 16.710 - 1,239,748)	16.710	139,692
Paul Coverdell Forensic Sciences Improvement Grant Program (Total Paul Coverdell Forensic Sciences Improvement Grant Program CFDA 16.742 - \$128,165)	16.742	81,775
Edward Byrne Memorial Competitive Grant Program - ARRA (Total Edward Byrne Memorial Competitive Grant Program - ARRA CFDA 16.808 - \$124,116)	16.808	112,485
National Forum on Youth Violence Prevention	16.819	1,798
Equitable Sharing Program	16.922	15,928
Passed Through Minnesota Department of Public Safety		
Violence Against Women Formula Grants - ARRA	16.588	53,223
Public Safety Partnership and Community Policing Grants (Total Public Safety Partnership and Community Policing Grants CFDA 16.710 - 1,239,748)	16.710	2,398
Paul Coverdell Forensic Sciences Improvement Grant Program (Total Paul Coverdell Forensic Sciences Improvement Grant Program CFDA 16.742 - \$128,165)	16.742	46,390
Passed Through Hennepin County		
Edward Byrne Memorial Justice Assistance Grant Program	16.738	545,159
Edward Byrne Memorial Competitive Grant Program - ARRA (Total Edward Byrne Memorial Competitive Grant Program - ARRA CFDA 16.808 \$124,116)	16.808	11,631
Total U.S. Department of Justice		\$ 2,337,617
U.S. Department of Labor		
Direct		
Workforce Investment Act Pilots, Demonstrations, and Research Projects	17.261	\$ 59,212
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - ARRA (Total Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors CFDA 17.275 - \$662,049)	17.275	545,063

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Labor (Continued)		
Passed Through Minnesota Department of Employment and Economic Development Workforce Investment Act (WIA) Cluster		
Workforce Investment Act Adult Program	17.258	671,909
Workforce Investment Act Youth Activities	17.259	922,600
Workforce Investment Act Dislocated Workers	17.260	927,682
Workforce Investment Act Dislocated Worker Formula Grants	17.278	142,533
Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors	17.275	<u>116,986</u>
(Total Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors CFDA 17.275 - \$662,049)		
Total U.S. Department of Labor		<u>\$ 3,385,985</u>
U.S. Department of Transportation		
Passed Through Metropolitan Council Federal Transit Cluster		
Federal Transit Capital Investment Grants	20.500	\$ 666,072
Federal Transit Formula Grants	20.507	389,450
Alternatives Analysis	20.522	48,619
Passed Through Minnesota Department of Transportation Highway Planning and Construction	20.205	10,193,345
Passed Through Minnesota Department of Public Safety Highway Safety Cluster		
State and Community Highway Safety	20.600	46,298
Occupant Protection Incentive Grants	20.602	17,287
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	<u>107,198</u>
Total U.S. Department of Transportation		<u>\$ 11,468,269</u>
U.S. Department of Treasury		
Direct National Foreclosure Mitigation Counseling	21.000	<u>\$ 8,456</u>
U.S. Environmental Protection Agency		
Direct Brownfields Assessment and Cleanup Cooperative Agreements	66.818	\$ 226,369
Passed Through Minnesota Public Facilities Authority Capitalization Grants for Clean Water State Revolving Funds	66.458	<u>602,200</u>
Total U.S. Environmental Protection Agency		<u>\$ 828,569</u>

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Energy		
Direct		
Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA (Total Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA CFDA 81.128 - \$1,886,540)	81.128	\$ 1,885,213
Passed Through Minnesota Department of Commerce - Minnesota Office of Energy Security Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA (Total Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA CFDA 81.128 - \$1,886,540)	81.128	1,327
State Energy Program - ARRA	81.041	<u>1,201,255</u>
Total U.S. Department of Energy		<u>\$ 3,087,795</u>
U.S. Department of Health and Human Services		
Direct		
Affordable Care Act (ACA) Grants for School-Based Health Center Capital Expenditures	93.501	\$ 116,173
Healthy Start Initiative	93.926	905,644
Passed Through Hennepin County		
Teenage Pregnancy Prevention Program	93.297	241,157
PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds	93.531	178,297
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families CFDA 93.558 - \$1,435,516)	93.558	504,565
Passed Through Minnesota Department of Health		
Postal Model for Medical Countermeasures Delivery and Distribution	93.016	9,600
Public Health Emergency Preparedness	93.069	364,462
Environmental Public Health and Emergency Response	93.070	25,000
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	184,611
Temporary Assistance for Needy Families (Total Temporary Assistance for Needy Families CFDA 93.558 - \$1,435,516)	93.558	930,951
Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) - ARRA	93.724	399,191
Preventive Health and Health Services Block Grant	93.991	10,075
Maternal and Child Health Services Block Grant to the States	93.994	<u>846,336</u>
Total U.S. Department of Health and Human Services		<u>\$ 4,716,062</u>

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012
(Continued)**

Federal Grantor Pass-Through Agency Grant Program Title	Federal CFDA Number	Expenditures
U.S. Department of Homeland Security		
Direct		
Assistance to Firefighters Grant	97.044	\$ 503,482
Passed Through City of Bloomington		
Homeland Security Grant Program (Total Homeland Security Grant Program CFDA 97.067 - \$1,879,772)	97.067	18,865
Passed Through Minnesota Department of Public Safety		
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	1,465
Emergency Operations Center	97.052	750,000
Port Security Grant Program	97.056	1,260,614
Homeland Security Grant Program (Total Homeland Security Grant Program CFDA 97.067 - \$1,879,772)	97.067	1,860,907
Total U.S. Department of Homeland Security		\$ 4,395,333
Total Federal Awards		\$ 66,691,454

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**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED DECEMBER 31, 2012**

1. Reporting Entity

The Schedule of Expenditures of Federal Awards presents the activities of federal award programs expended by the City of Minneapolis. The City's reporting entity is defined in Note 1 to basic financial statements. This schedule does not include \$869,217 in federal awards expended by the Minneapolis Park and Recreation Board component unit, which had a separate single audit.

2. Basis of Presentation

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Minneapolis under programs of the federal government for the year ended December 31, 2012. The information in this schedule is presented in accordance with the requirements of Office of Management and Budget (OMB) Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the schedule presents only a selected portion of the operations of the City of Minneapolis, it is not intended to and does not present the financial position, changes in net position, or cash flows of the City of Minneapolis.

3. Summary of Significant Accounting Policies

Expenditures reported on the schedule are reported on the basis of accounting used by the individual funds of the City of Minneapolis. Governmental funds use the modified accrual basis of accounting. Proprietary funds use the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Pass-through grant numbers were not assigned by the pass-through agencies.

4. Clusters

Clusters of programs are groupings of closely related programs that share common compliance requirements. Total expenditures by cluster are:

Community Development Block Grant (CDBG)/Entitlement Grants Cluster	\$ 16,993,151
Workforce Investment Act (WIA) Cluster	2,664,724
Federal Transit Cluster	1,055,522
Highway Safety Cluster	63,585

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

5. Subrecipients

Of the expenditures presented in the schedule, the City of Minneapolis provided federal awards to subrecipients as follows:

CFDA Number	Program Name	Amount Provided to Subrecipients
14.218	Community Development Block Grants/Entitlement Grants	\$ 2,505,515
14.241	Housing Opportunities for Persons with AIDS	945,780
14.256	Neighborhood Stabilization Program - ARRA	1,497,842
14.257	Homelessness Prevention and Rapid Re-Housing Program - ARRA	1,103,149
14.900	Lead-Based Paint Hazard Control in Privately-Owned Housing	89,347
14.914	Asthma Interventions in Public and Assisted Multifamily Housing	17,436
14.905	Lead Hazard Reduction Demonstration Grant Program	38,248
15.655	Migratory Bird Monitoring, Assessment and Conservation	15,295
16.544	Youth Gang Prevention	126,652
16.588	Violence Against Women Formula Grants – ARRA	29,765
17.261	Workforce Investment Act Pilots, Demonstrations, and Research Projects	56,092
17.275	Program of Competitive Grants for Worker Training and Placement in High Growth and Emerging Industry Sectors - ARRA	513,714
17.258	Workforce Investment Act Adult Program	384,646
17.259	Workforce Investment Act Youth Activities	822,368
17.260	Workforce Investment Act Dislocated Workers	481,149
17.278	Workforce Investment Act Dislocated Worker Formula Grants	105,574
20.507	Federal Transit Formula Grants	333,513
20.205	Highway Planning and Construction	32,381
20.600	State and Community Highway Safety	2,708
20.602	Occupant Protection Incentive Grants	9,231
20.608	Minimum Penalties for Repeat Offenders for Driving While Intoxicated	24,453
81.128	Energy Efficiency and Conservation Block Grant Program (EECBG) - ARRA	367,000
81.041	State Energy Program - ARRA	218,523
93.926	Healthy Start Initiative	471,913
93.531	PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds	17,500
93.558	Temporary Assistance for Needy Families	1,231,910
93.070	Environmental Public Health and Emergency Response	12,600
93.505	Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	180,115
93.724	Prevention and Wellness - Communities Putting Prevention to Work Funding Opportunities Announcement (FOA) - ARRA	144,428
93.994	Maternal and Child Health Services Block Grant to the States	466,126
97.036	Disaster Grants - Public Assistance (Presidentially Declared Disasters)	1,465
	Total	<u>\$ 12,246,438</u>

**CITY OF MINNEAPOLIS
MINNEAPOLIS, MINNESOTA**

6. Reconciliation to Schedule of Intergovernmental Revenue

Federal grant revenue per Schedule of Intergovernmental Revenue	\$ 65,684,997
Federal Fixed Price Contracts	
Equal Employment Opportunity Commission	(60,235)
Armadillo	(15,059)
Criminal Investigations Division Sex Task Force	(1,264)
Drug Enforcement Admin TF	(36,040)
GET-ATF	(42,844)
GET-ICE	(8,446)
Hamburglar	(95,000)
MN Cyber Crime Task Force	(23,046)
MN Violent Crime/Fugitive	(17,172)
Organized Crime Drug Enforcement	(1,961)
Safe Streets Violent Crime TF	(208,244)
Federal Projects	(1,079)
U.S. Marshalls OT May - Dec 2012	(17,951)
Joint Terrorism Task Force	(2,015)
Heat Incident Response CDC	(2,249)
Timing Differences Between Expenditures and Related Reimbursements	69,275
Minnesota Public Facility Agency Loans	451,650
Expenditures occurring prior to 2012 but reimbursed in 2012	(2,094,121)
Credit to Maternal and Child Health Federal Consolidated Programs	7,163
Federal Program Income	
State Energy Program - ARRA	125,551
Neighborhood Stabilization Program - ARRA	1,073,013
Healthy Homes Demonstration Grant	31,491
Neighborhood Stabilization Program	283,444
Community Development Block Grants/Entitlement Grants	505,656
HOME Investment Partnerships Program	1,085,940
	1,085,940
Expenditures Per Schedule of Expenditures of Federal Awards	\$ 66,691,454

7. American Recovery and Reinvestment Act

The American Recovery and Reinvestment Act of 2009 (ARRA) requires recipients to clearly distinguish ARRA funds from non-ARRA funding. In the schedule, ARRA funds are denoted by the addition of ARRA to the program name.